

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE JANUARY 25, 2017 PENSION BOARD MEETING

1. Call to Order

The Chairman called the meeting to order at 8:33 a.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

Members Present

Linda Bedford
Aimee Funck
Norb Gedemer
Patricia Van Kampen
Vera Westphal
David Zepecki
Dr. Brian Daugherty (Chairman)

Members Excused

Laurie Braun (Vice Chair)
Daniel Byrne
Michael Harper

Others Present

Marian Ninneman, Director-Retirement Plan Services
Margaret Daun, Acting Corporation Counsel
James Carroll, Assistant Corporation Counsel
Vivian Aikin, Sr. Pension Analyst
Tina Lausier, Fiscal Officer
CJ Pahl, Budget and Management Coordinator, Office of the Comptroller
Jon L. Feinberg, ABS Investment Management LLC
Laurence K. Russian, ABS Investment Management LLC
Megan Golder, Morgan Stanley Real Estate Investing
Brett Christenson, Marquette Associates, Inc.
Christopher Caparelli, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.
Steven May, County retiree

3. Minutes—December 21, 2016 Pension Board Meeting

The Pension Board reviewed the minutes of the December 21, 2016 Pension Board meeting.

The Pension Board voted unanimously to approve the minutes of the December 21, 2016 Pension Board meeting. Motion by Ms. Westphal, seconded by Ms. Funck.

4. Investments

(a) ABS Investment Management

Jon Feinberg and Laurence Russian of ABS Investment Management LLC ("ABS") distributed a booklet containing information on the hedged equity long/short fund-of-hedge funds investment management services provided by ABS for ERS. Mr. Feinberg indicated he oversees sales and marketing at ABS and introduced Mr. Russian as one of the founders of ABS.

Mr. Russian began with a brief overview of the firm. ABS manages approximately \$4.8 billion in total firm assets. The firm employs 28 individuals and has historically low turnover. Mr. Russian noted there has been no turnover on the investment team for many years. The average tenure at ABS is 11 years and 16 of the 28 members are partners in the firm. ABS is differentiated from its larger peers in the hedged equity space and focuses on niche strategies across the globe. In 2016, ABS conducted 350 on-site visits in 17 countries and documented over 800 face-to-face meetings.

Mr. Feinberg commented that many of ABS's peers act primarily as asset allocators to the top 50 hedge funds. In contrast, ABS travels the globe in search of niche managers that are geographic and sector specialists. Mr. Feinberg noted this strategy did not work well for ABS in 2016. However, there are favorable indicators in the market which suggest ABS's strategy will work in 2017 that Mr. Russian will discuss later.

Mr. Russian continued with a discussion of market factors influencing equity long/short performance. Between 2013 and 2015, there was an overall expectation that the Fed would begin to taper its quantitative easing program. ABS performed well during that three year period and generated some substantial alpha. ABS entered 2016 with some embedded themes in its portfolio driven by its underlying

managers. Broadly speaking, the portfolio was underweight to expensive yielding companies and overweight to secular growth companies which were not dependent on global GDP. While this positioning worked well in the years leading up to 2016, the global growth scare led by China in January and February of 2016 changed everything. The Fed held off on raising interest rates in the U.S. and central banks across the globe increased monetary stimulus. These policies allowed the highly-leveraged and cyclical commodity stocks to recover in 2016. The portfolio was significantly underweight to this area which inhibited performance in 2016. Mr. Russian explained that its managers did not change strategic positioning in 2016 to chase performance and ABS maintains conviction that its strategy will generate favorable returns over the longer-term.

Mr. Feinberg noted that ABS's strategy is working in the early portion of 2017. Mr. Feinberg reported that ABS is outperforming the market to date, with approximately half the volatility.

Ms. Daun then questioned whether ABS has explored any potential short- to mid-term tactical adjustments designed to respond to signals from the Trump administration that it will implement certain major changes to policies such as trade.

Mr. Russian explained that ABS has made certain post-election adjustments to the portfolio such as an increased weighting to financials. The portfolio is allocated to approximately 24 specialist managers across the globe. Each manager is tasked with the decision of how aggressive it should move based on changes. Mr. Russian noted there are different styles and strategies embedded in the portfolio and certain managers move quickly, while others put a great deal of work into their holdings and let them play out. ABS carefully monitors all portfolio activity monthly.

In response to a follow-up question from Ms. Van Kampen regarding post-election manager turnover in the portfolio, Mr. Russian stated the portfolio had lower than average turnover in 2016. Mr. Russian explained that ABS is constantly underwriting each name in its portfolio. If expectations are met, ABS does not typically turn over a manager solely based on its view of the marketplace. In the two to three weeks following the presidential election, there were some very significant and aggressive moves in certain secular growth companies and financials. Some managers in the portfolio were positioned for these moves and some were not. Mr. Russian cautioned that while the policies proposed by the Trump administration may have been

priced in to the market, those policies have not yet been enacted. ABS monitors the situation daily but will not make change without careful analysis and consideration.

Mr. Feinberg noted the largest factor involved with the Trump administration as it relates to the financial markets and hedge fund-of-funds is a lack of certainty. Market volatility typically coincides with a lack of certainty and hedged equity tends to outperform in volatile markets. The policies of the Trump administration will take months or years to implement and increased volatility during that time should lead to increased alpha.

In response to a follow-up question from Ms. Daun regarding why increased volatility leads to increased alpha, Mr. Russian explained it is difficult for hedge fund managers to generate outsized returns when stocks move together in clusters. During uncertain periods where stocks move around based on expectations, there are increased opportunities to take bets long and short. This generates output because there is differentiation among the stocks. ABS is already seeing this dispersion environment emerge in early 2017. Despite some losses in 2016, ABS's managers have not conceded on their positioning and have already recouped some of their losses in 2017. Mr. Russian acknowledged there is investor fatigue with long/short, but suggested this is the wrong time to exit active management.

Mr. Russian then discussed ABS's outlook relative to uncertainties created by the Trump administration. Certain changes to taxes, regulation, trade restrictions and fiscal spending are likely on the horizon. Mr. Russian noted that fiscal stimulus differs from monetary stimulus in how it affects stocks and different asset classes. ABS believes fiscal stimulus will greatly benefit active management and long/short is a magnified form of active management. Mr. Russian observed there is little doubt that President Trump will bring a great deal of change going forward and that should be beneficial for active management.

Mr. Russian concluded the presentation by addressing the negative shadow that has been cast on the hedge fund industry. Poor performance, net outflows and negative press have all painted the hedge fund industry in a negative light. Mr. Russian noted that some of the negative attention is for good reason, but ABS views this as a positive dynamic for the industry. As more assets and players exit the strategy, it will lead to a more favorable environment for early-stage managers that focus on niche strategies. Early-stage

investors often have difficulty raising assets because of the negative shadow on the industry. In this challenging fundraising environment, ABS can negotiate very compelling terms and conditions. Current fees are running between 25% and 40% lower than average. ABS believes the hedge fund industry has reached a tipping point where it will only improve. Mr. Russian noted that ABS is one of the few firms that has maintained a stable asset base, stable team and continues to play offense.

Messrs. Russian and Feinberg thanked ERS and the Board for its patience, confidence and continued relationship during this difficult period.

In response to a question from the Chairman regarding future strength of the U.S. dollar, Mr. Russian stated there could be a marked increase in volatility of the U.S. dollar. While the strength of the dollar could go higher in the short-term, it is likely close to being fully valued.

Ms. Daun remarked that because of the negative shadow cast on the industry, trustees and advisors of pension funds often receive questions regarding exposure to hedge funds. Ms. Daun encouraged any Board members who may receive such questions from the press to refer them to Ms. Ninneman. Ms. Ninneman will coordinate a response through Corporation Counsel. Ms. Daun noted ERS partners with excellent consultants and there is a sound investment strategy in place to achieve favorable returns over the long-term.

Ms. Westphal remarked that the Board strives to adopt investment policies designed to allow the Fund to meet its annual rate of return. Ms. Westphal stated ERS did not meet its annual return in 2016 in part due to negative performance from ABS. Ms. Westphal stressed the importance of ABS partnering with the Board to ensure ERS meets its annual return. Ms. Westphal concluded her remarks by stating the Board is relying on ABS to produce positive returns going forward regardless of any current uncertainties.

The Chairman called for additional questions, and there were none.

Following the ABS presentation, the Chairman acknowledged Margaret Daun and welcomed her to the meeting.

Ms. Daun introduced herself to the Pension Board and explained she is awaiting County Board confirmation of her appointment as

Corporation Counsel. Ms. Daun noted she is a native Milwaukeean and received her undergraduate degree and a graduate degree in financial economics from Marquette University. Ms. Daun then attended law school in Madison. Following law school, Ms. Daun worked at a large Wall Street firm and advised investment banks for approximately ten years. Ms. Daun later returned to Milwaukee and joined the City Attorney's Office, where she was primarily responsible for advising the City of Milwaukee's pension fund. Ms. Daun also noted she served as a trustee and managed Milwaukee's deferred compensation plan. Ms. Daun stated she is acquainted with the Fund's actuarial consultants at Buck and one of the Fund's investment consultants at Marquette. Ms. Daun invited the Pension Board members and other colleagues to meet with her individually to answer additional questions regarding her background. Ms. Daun concluded her remarks by stating she finds pension and benefits advisory work very rewarding and is happy to assist the Board, Ms. Ninneman, and Messrs. Carroll and Huff.

(b) Morgan Stanley

Megan Golder of Morgan Stanley distributed a booklet containing information on the real estate investment management services provided by Morgan Stanley for ERS. Ms. Golder introduced herself as an investment consultant for Morgan Stanley's Prime Property Fund ("Prime Fund").

Ms. Golder began by providing an overview of the Prime Fund. Ms. Golder first noted Morgan Stanley is in the midst of processing its year-end information and all year-end statistics have not been finalized. The net asset value of the Prime Fund is \$17.5 billion as of December 31, 2016. The Prime Fund is the fourth largest fund in the open-end diversified core equity ("ODCE") universe. Morgan Stanley is content with the size of the Prime Fund because it can remain tactical through the market cycle. Consolidated leverage on the Prime Fund is 16.9% as of December 31, 2016 and is slightly below the firm's target range of 20% to 30%. Ms. Golder noted Morgan Stanley recently closed on an unsecured borrowing of \$300 million and leverage is now likely closer to the 18% range. The Prime Fund is one of the more lower-levered funds within the ODCE today because management believes returns should not be sought through excess leverage. There are 348 assets and 285 investors in the Prime Fund. As of September 30, 2016, the Prime Fund is 93.5% leased and the trailing 12-month dividend is 4%. The Prime Fund's

gross return since inception (1973) is 9.2% as of September 30, 2016. On an annualized gross basis, the Prime Fund outperformed the NCREIF Fund Index Open-end Diversified Core Equity (the "NFI-ODCE Index") in the one-, three-, five-, and ten-year periods. The Prime Fund continues to outperform in the 2016 fourth quarter by approximately 60 basis points.

Ms. Golder continued with an overview of the management team. The composition of the investment team remains unchanged. Scott Brown continues to serve as Head of the Prime Property Fund and has been dedicated to the Prime Fund since 2002. Candice Todd serves as Chief Financial Officer and has been dedicated to the Prime Fund since 2001. Josh Myerberg was added as Deputy Portfolio Manager in 2014 and works closely with Mr. Brown on the investment side. Bennet Weaver was added as Head of Operations in 2013 and works closely with Ms. Todd on CFO responsibilities of the Prime Fund. Certain changes occurred to the composition of Morgan Stanley's Investment Committee in 2016. One member of the Investment Committee who last served as COO at Morgan Stanley departed the firm in July 2016. There was also reorganization to the structure of real estate, which is now in real assets, to better align with the market. With that change, Jon Klopp is now Head of Real Assets and Olivia de Poulpiquet is Head of Real Estate. Mr. Klopp and Ms. de Poulpiquet previously served as co-CEOs of real estate.

In response to a question from Ms. Daun, Ms. Golder stated she is not aware of any other pending departures at the firm.

In response to a follow-up question from Ms. Daun regarding the indices, Mr. Caparelli and Ms. Golder explained the "NFI-ODCE Index" is simply the shortened form for the NCREIF Fund Index Open-end Diversified Core Equity. Within Morgan Stanley's booklet, the NFI-ODCE Index is the leveraged benchmark and the Investment Property Databank U.S. Core Open-ended Fund Index (the "IPD Index") is the unleveraged benchmark.

Ms. Golder continued with an overview of the Prime Fund portfolio. As of September 30, 2016, approximately 35% of the portfolio is allocated to office, 18% to retail, 25% to apartment, 13% to industrial and 5% to self-storage. In terms of leased status per sector, office is 95.6% leased, retail 93.1%, industrial 96.5%, apartment 92.5% and self-storage 85% as of September 30, 2016. Net operating income ("NOI") is strong across the portfolio because it is well-leased. Final NOI for 2016 is approximately 5.5%.

In response to a question from Ms. Van Kampen regarding current opportunities in retail space, Ms. Golder reported that Morgan Stanley recently closed on an off-market transaction with a 25% interest in the retail component of the Wynn Hotel in Las Vegas. This was a non-brokered private transaction acquired through Morgan Stanley's existing relationship with the Apple Store in SoHo, New York.

In response to a question from Mr. Caparelli regarding the portfolio's performance in a potentially rising interest rate environment, Ms. Golder stated the majority of debt in the portfolio is fixed and Morgan Stanley continues to work towards locking in long-term debt. The weighted average cost of debt as of September 30, 2016 is 3.8%, with a remaining term of 6.3 years. Morgan Stanley continues to position the portfolio on a forward basis in the event there is an interest rate increase.

In response to a follow-up question from Mr. Caparelli regarding the ability to increase rent relative to inflation, Ms. Golder stated that real estate is a good hedge for inflation. If Morgan Stanley could draw on its rent roll, it would require approximately 10% annually to protect against inflation. Morgan Stanley considers this when renewing its leases and continues to review its lease rollover across all sectors.

Ms. Golder then discussed performance. Ms. Golder first presented gross-of-fees performance relative to the unleveraged IPD Index. As of September 30, 2016, the portfolio outperformed the IPD Index in the 2016 third quarter and, over the one-, three-, five-, and ten-year periods. Ms. Golder next presented net-of-fees performance relative to the leveraged NFI-ODCE Index. As of September 30, 2016, the portfolio also outperformed the NFI-ODCE Index in the 2016 third quarter and, over the one-, three-, five-, and ten-year periods.

In response to a question from Ms. Van Kampen regarding historic market conditions where the portfolio has underperformed, Ms. Golder stated the portfolio underperformed in 2009 when it was 300 to 400 basis points more highly-leveraged relative to its peer group. Morgan Stanley's strategy has changed since that time and is now leveraged at or below average peer group leverages.

Ms. Golder concluded her remarks by stating the valuation policy remains unchanged and each asset in the portfolio is independently valued on a quarterly basis. In 2016, the Prime Fund called approximately \$1.9 billion in capital and paid out approximately \$1

billion in redemptions. Strong inflows continue into the Prime Fund and the incoming queue is currently \$1 billion, with a wait time of two to three quarters to enter the fund.

In response to a question from Ms. Van Kampen regarding Morgan Stanley's long-term projections relative to the millennials purchasing homes versus renting apartments, Ms. Golder stated the Head of Research at Morgan Stanley is monitoring the real estate habits/statistics of millennials. Current research suggests that many millennials living in urban apartments today may not move as far out to the suburbs as past generations did to raise their families. For example, many millennials living in New York City have moved to Brooklyn to raise families. This is a trend that Morgan Stanley will continue to monitor as it considers its future outlook for apartments.

The Chairman called for additional questions, and there were none.

Ms. Golder thanked ERS for its continued relationship and left the meeting.

(c) Marquette Associates Report

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the December 2016 monthly report.

Mr. Caparelli first discussed recent updates at Marquette Associates. Marquette recently expanded employee ownership within the firm. Kewku Obed and Tom Salemy were each named Managing Partners in the firm. Marquette also recently acquired Pennsylvania-based Peirce Park Group. Peirce Park Group is an independent, employee-owned investment consulting firm with nine employees. Peirce Park Group advises a variety of institutional clients with approximately \$4.5 billion in assets under administration. The merger with Peirce Park Group will broaden Marquette's geographic footprint and lend a fresh perspective as the two firms combine.

In response to a question from the Chairman, Mr. Caparelli confirmed the Peirce Park Group employees will remain based in Pennsylvania.

Mr. Caparelli continued with a discussion of the market environment. The post-Trump election market rally continued in December. With higher levels of growth and inflation predicted for the near future, the stock and bond markets were pricing in the idea the U.S. is entering a

reflationary environment. The market rally continued in January 2017 and the markets are not nearly as volatile relative to activity in January 2016. The U.S. economy added 156,000 jobs in December and unemployment in December averaged around 4.7%. While growth levels in the U.S. economy have not elicited excitement from investors, the U.S. economy remains relatively healthy and is not recessionary.

In the 2016 fourth quarter, there were negative returns across the fixed income markets. Fixed income interest rates rose throughout the fourth quarter. This was partially due to the Federal Reserve ("Fed") raising interest rates in December 2016 and resulted in changes to the short end of the yield curve. Changes to the middle portion of the yield curve resulted from higher predicted levels of growth and inflation. Yield on the ten-year Treasury closed out 2016 at approximately 250 basis points. As of mid-2016, yield on the ten-year Treasury was at approximately 150 basis points. The approximate 1% increase in the ten-year Treasury over that six month period resulted in negative fixed income returns.

In response to a question from the Chairman regarding predictions for additional rate increases, Mr. Caparelli confirmed that it is broadly anticipated the Fed will call for three to four additional rate increases in 2017 at 25 basis points each. However, if the Trump administration's proposed policies begin to appear overly optimistic, the Fed may call for fewer increases.

Mr. Caparelli continued with a discussion of U.S. equity. Returns under U.S. equity in 2016 were relatively strong over the one-month, quarterly and one-year periods. The S&P 500 was up year-to-date at 12% as of December 31, 2016. Value outperformed growth across the U.S. equity market cap spectrum and small cap outperformed mid and large cap. The Russell 2000 Value was up at 31% year-to-date as of December 31, 2016. The Russell 2000 Value Index has approximately a 35% weighting to the financials sector. Consequently, as the Trump administration spoke of tax reform that would directly benefit small cap companies, financials rallied hard in the 2016 fourth quarter and helped enhance returns in the small cap value space.

Performance in international equity did not keep pace with the U.S. equity markets in 2016 and returns remained flat to slightly positive. One outlying area in international was the emerging markets space which benefited from a recovery in commodities throughout 2016.

While emerging markets had a difficult fourth quarter, 2016 performance was favorable. The strong U.S. dollar continues to negatively affect international currencies. Marquette believes the international space is looking attractive from a valuation standpoint and valuations in the U.S. markets are appearing frothy. Mr. Caparelli noted that although valuation is not a good predictor of short-term returns, Marquette believes that international equity will begin to exhibit enhanced returns over the next several years.

In response to a question from Ms. Van Kampen regarding concern surrounding the protectionist policies of the Trump administration, Mr. Caparelli confirmed there has been some discussion among investor managers regarding the uncertain effect of such policies. Globalization has increased over the last year and the Trump administration's talk of reversing direction will likely lead to decreased confidence internationally.

Mr. Christenson next discussed the December 2016 flash report. Mr. Christenson noted a number of managers are on alert or on notice. Marquette has discussed active manager underperformance extensively over the last several Board meetings. Mr. Christenson stated that outside of the 2007-2008 financial crisis, the recent period of active manager underperformance has been one of the most difficult periods he has witnessed in his 17 years as an investment manager. Geneva Capital and Mesirow are each on notice. It was previously determined these managers would be given a four-month time frame to regain one-third of their underperformance through October 2016. Marquette will review performance objectives for Mesirow and Geneva later in the meeting.

The Fund's total market value as of December 31, 2016 was just under \$1.7 billion. Mr. Christenson noted the Fund's year-end returns are preliminary because private equity has not yet reported. The Board approved rebalancing at its December 2016 meeting and \$7.5 million each was liquidated from Boston Partners and Silvercrest. The entire \$15 million was placed in the International NTGI ACWI Index. Redemptions are currently in place with ABS for \$11 million, IFM for \$2 million and J.P. Morgan infrastructure for \$8 million. Mr. Christenson noted that Marquette will pay close attention to asset allocation in 2017 and likely do more rebalancing in 2017 to ensure the Fund stays close to its target allocations. Following the recent rebalancing, the Fund is relatively in line with its policy targets. Mr. Christenson noted there has been some frustration regarding the

pace of increasing the Fund's private equity allocation to its 10% target. Allocations to Siguler Guff's Fund III and Mesirow's Fund 6 are up to \$11 million each and ERS already received a \$3 million redemption from Siguler Guff's Fund III. The Adams Street co-investment fund has been slower to put funds to work than initially anticipated. To date, ERS had allocated \$9 million to the Adams Street co-investment fund. Private equity is currently allocated at 7.2%.

In response to a question from the Chairman, Mr. Christenson stated Marquette anticipates the Fund should reach its 10% private equity target within one year.

Mr. Christenson continued with a discussion of the Fund's calendar year returns. Mr. Christenson noted the longer term two-, three- and four-year annualized returns of many active managers have been negatively affected by underperformance in 2016. Because of the negative impact the 2016 performance has had on longer-term returns, Mr. Christenson framed the discussion in terms of calendar year performance. The Fund's preliminary 2016 return is 6.8%. Mr. Christenson explained recent underperformance by active management has negatively affected the Fund's overall performance. If all of the Fund's U.S. equity managers were performing to target, the Fund's 2016 return would be 7.8%. Mr. Christenson noted the Fund maintains a strong investment philosophy and asset allocation, but the significant underperformance from active management has been frustrating. While ABS was up at 4% in 2015, its 2016 return was down at -4.2% relative to the 7.9% MSCI ACWI Index. If ABS's 2016 returns were on par with returns under the MSCI ACWI, the Fund's annual return would likely be at or above its 8% target. Mr. Christenson noted it is difficult to change managers while they are underperforming and lock in underperformance. However, Mr. Christenson suggested it may be time for the Board to consider increased indexing in the Fund, especially in the U.S. equity space.

In response to questions from Ms. Daun regarding transition management, Mr. Christenson confirmed the Fund regularly utilizes transition managers. The Fund has historically used Northern Trust or Vertas for transition management. Mr. Christenson noted that while few transition managers are left, Northern Trust and Vertas are two of the strongest.

Mr. Christenson continued with a discussion of the Fund's U.S. equity managers. Geneva Capital has underperformed three of the

last four calendar years and has been placed on notice for performance issues. Geneva's performance rebounded in 2015 but it underperformed in 2016. Mesirow is also on notice for performance issues. Mesirow has been a manager in the Fund since 2010 and has performed either in line with or above its benchmark in five of seven calendar years. Mesirow significantly underperformed its benchmark in 2016 at 15% versus the Russell 2000 Value at 31.7%.

Mr. Christenson observed that managers will likely not meet benchmarks that are soaring up around the 30% level. However, the recent underperformance of Mesirow and Geneva is significant enough to warrant holding those managers accountable to a performance schedule. Mr. Christenson noted the other two managers to closely monitor are Boston Partners in large cap and Artisan Partners in mid cap. Boston Partners has underperformed for the last three years. However, in two of the three years, Boston Partners ranked in the top half of their peer group. Boston Partners has been one of the most consistent outperforming large cap value managers in its universe. The situation with Boston Partners illustrates the current difficulties plaguing active management in general. Mr. Christenson suggested that it would be reasonable to place Boston Partners on alert now and the Board can address placing this manager on a performance schedule later. Artisan Partners also exhibited significant underperformance in 2016. However, Artisan has been a strong, consistent manager that has outperformed its rankings from 2007 to 2013. Mr. Christenson noted Marquette does not recommend placing Artisan on alert at this time. Mr. Christenson suggested that 2017 will be an indicative year for active management and, if the active managers do not begin to significantly recoup negative performance from the last few years, it may be time for the Board to begin shifting more of the portfolio to passive investing.

In response to a question from Ms. Van Kampen regarding the amount of underperformance recouped by Mesirow and Geneva to date, Mr. Christenson stated that both managers continued to underperform in December, with Mesirow underperforming to a greater extent than Geneva. January will be an important month for these managers, but it currently appears unlikely these managers can meet the requested gains. The Board can decide whether to follow through with termination at the end of the designated time period. Mr. Christenson stated he would like to obtain fee pricing from the Northern Trust, and send the Northern Trust documents to legal so they are ready for review if the Board decides to make a change at its March meeting. Marquette would like to implement any changes

quickly so it can focus on other issues related to hedged equity and broader asset allocation.

Mr. Christenson concluded his remarks with a discussion of hedged equity. The 2016 return for ABS was down -4.2%. Mr. Christenson noted the best benchmark to gauge ABS's performance is the MSCI ACWI, which was up at 7.9% for 2016. The Pension Board approved reducing allocations to ABS in 2016. In 2015, the Pension Board terminated and replaced K2 with Parametric. Parametric's performance since inception has been strong and its 2016 return was 8.2%. Mr. Christenson noted that possible changes to the Fund's hedged equity strategy should be included in the asset allocation discussion scheduled for March. Mr. Christenson explained that if the Board would like to maintain a hedged equity allocation with a fund-of-funds manager, Parametric would be the optimal choice. Parametric is a very active investor in smaller sized firms and Marquette maintains conviction in this manager.

In response to comments from Ms. Daun regarding the importance of overall asset allocation, Mr. Christenson stated that Marquette plans to present results of an overall asset allocation study at the March Investment Committee meeting. Mr. Christenson explained that Marquette typically reviews two or three versions of an asset allocation study with the Committee and Board over several months. During its asset allocation discussions, Marquette will also address the Fund's future strategy on active versus passive management and may recommend moving towards a more passive strategy in certain asset classes.

Mr. Caparelli concluded the discussion by summarizing the performance objectives for Geneva Capital and Mesirow. Mr. Caparelli first explained the Board voted to place Mesirow and Geneva Capital on notice for performance in November 2016. At that time, it was also determined Marquette would notify each manager that ERS is expecting them to significantly outperform their benchmarks by at least one-third in the next four months or face possible termination. As of October 31, 2016, Geneva was underperforming its benchmark by 5.7% over the trailing 12 months. Geneva is expected to recoup approximately 1.9% of its excess underperformance relative to its benchmark over the four month period. The magnitude of Mesirow's underperformance was greater. As of October 31, 2016, Mesirow was underperforming its benchmark by 12% over the trailing 12 months and is expected to

recoup approximately 4% of its excess underperformance over the four month period. With its cumulative performance over a two month period, Geneva has increased the excess underperformance it must regain to 2.3%. However, Marquette believes Geneva could recoup 2.3% in two months. Mesirow also increased its excess underperformance and must recoup 6.7% in two months. Mr. Caparelli noted it will likely be difficult for Mesirow to recoup the full 6.7%, but not impossible.

The Pension Board voted unanimously to place Boston Partners on alert for performance issues. Motion by Ms. Van Kampen, seconded by Ms. Bedford.

The Chairman called for questions from the Board members, and there were none.

Mr. Gedemer then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e) with regard to agenda item 5 for the purpose of deliberating or negotiating the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session.

The Pension Board unanimously agreed by a roll call vote of 7-0 to enter into closed session to discuss agenda item 5. Motion by Mr. Gedemer, seconded by Ms. Van Kampen.

5. Investment Committee Meeting—January 4, 2017

In closed session, the Pension Board discussed the fixed income request for proposal ("RFP") results.

After returning to open session, the Pension Board voted unanimously to delegate authority to the Investment Committee, in consultation with Marquette Associates, Corporation Counsel and outside counsel at Reinhart, to take certain actions at upcoming Investment Committee meetings related to fixed income management and strategies and/or transition management and, if so determined and approved at upcoming Investment Committee meetings, such motions will be ratified by the Pension Board at its next subsequent meeting in open session for the purposes of an open session record. Motion by Ms. Van Kampen, seconded by Ms. Funck.

6. Audit Committee Meeting—January 4, 2017

In open session Ms. Westphal reported on the January 4, 2017 Audit Committee meeting.

The Audit Committee first discussed the 2017 budget. Ms. Westphal noted that at its December 2016 meeting, the Pension Board provisionally approved the 2017 Preliminary Budget, subject to further clarification of investment manager and legal fees. Ms. Ninneman explained to the Committee that the \$800,000 increase in investment manager fees for 2017 was an error and the 2017 preliminary fees should be set at \$2 million. Ms. Ninneman also explained the 2017 preliminary fees for outside legal counsel were reforecast from \$1.5 million to \$1.2 million.

In response to a question from Ms. Westphal, Ms. Ninneman confirmed that the reduction in investment manager and outside legal counsel fees were the only changes made to the 2017 budget.

The Chairman called for approval of the 2017 budget.

The Pension Board voted unanimously to approve the 2017 ERS budget. Motion by Ms. Westphal, seconded by Ms. Bedford.

Ms. Westphal continued with her report. The Audit Committee next discussed the employee Pension Board member election. Ms. Westphal reported that her seat on the Board will expire in March. However, to date, no one has submitted nomination papers. Ms. Ninneman recently reissued a notification of the upcoming employee member vacancy on the Pension Board. Ms. Westphal asked the members of the Pension Board to encourage any interested parties to run for election and fill the upcoming vacancy.

Ms. Ninneman explained to the Board that RPS is holding an informational session for interested parties to review the responsibilities of a Pension Board member. Information at the upcoming session will include the election process, duties and time commitments. Ms. Ninneman noted RPS is advising interested candidates that the time commitment to review Pension Board meeting materials and attend Committee meetings is extensive and can be approximately 10 hours per month.

Ms. Daun noted she recently discussed with Ms. Ninneman fiduciary training for Pension Board members. Ms. Daun explained it is a best practice in governance for trustees to attend annual training on fiduciary duties and obligations. Ms. Daun explained that trustees are not expected to be investment experts or understand every legal nuance. However, trustees

are expected to read, review and ask questions of the information presented, to ensure they reach a certain level of comfort regarding any decisions in which they exercise their fiduciary judgment. Ms. Daun noted this expectation can be a significant burden, especially if an individual is coming to the Board with minimal financial or trustee experience. Ms. Daun then asked the Board members to consider whether they would like to receive such training in a standalone session or at a future Pension Board meeting. Ms. Daun indicated the training would take approximately 30 to 45 minutes, with additional time for questions and discussion as needed. Ms. Daun also invited RPS staff and Ms. Pahl to attend the fiduciary training session.

Ms. Ninneman indicated she would send an e-mail to the Pension Board and staff detailing the options for a fiduciary training session.

Ms. Westphal continued her report. The Audit Committee next discussed the annual meeting survey. Ms. Ninneman presented a draft of the proposed annual meeting survey to the Committee for review. The survey addresses several issues such as time and location, and is designed to explore methods to increase attendance at the annual Pension Board meeting. It was determined the survey would be sent to retirees and will be included in the January *Communicator*.

Ms. Ninneman explained the January *Communicator* will be sent with the direct deposit notices. The annual meeting survey will be on a standalone page and a return envelope will be included in the mailing. Ms. Ninneman also explained that RPS has created an online version of the annual meeting survey via Survey Monkey.

The Audit Committee then discussed possible amendments to Rule 1025, accidental pensioner reexamination. Mr. Carroll discussed possible revisions to the Rule. Mr. Carroll explained certain procedures outlined in the Rule are out of date because the layoff-recall system no longer exists. Mr. Carroll requested additional time to review possible amendments to Rule 1025 and asked that the matter be deferred to the February Audit Committee and Pension Board meetings.

The Audit Committee continued with a discussion of open meeting requirements. In December 2016, the Audit Committee and Pension Board discussed an e-mail from Chairman Lipscomb asking the Pension Board to move its meetings from the Marcus Center to the County Courthouse, to facilitate livestreaming of Pension Board meetings. Subsequent to the December meetings, the County Executive also issued a letter requesting that the Pension Board move its meetings to the County Courthouse. Ms. Westphal also noted a formal resolution with the request to move will

be presented at the January 26, 2017 Finance Committee meeting. Ms. Westphal noted the Pension Board discussed the matter at length at its December 2016 meeting. However, the Audit Committee felt it was appropriate to provide the Pension Board with additional opportunity for discussion, if desired.

Ms. Westphal called for additional discussion from the Board members.

The Chairman indicated he believes the Board's prior discussion of the request to move was well-documented in the December 21, 2016 Pension Board meeting minutes. The Chairman stated his previously-documented preference to continue holding Pension Board meetings at the Marcus Center remains unchanged. The Chairman also noted his appointed term on the Pension Board will expire in March 2017.

In response to a question from Ms. Funck and the Chairman, Mr. Huff confirmed that at the December 2016 Pension Board meeting, the Chairman called for a motion to move the meeting location and none was made.

In response to a question from Ms. Bedford regarding resolution to the parking issue for Board members at the County Courthouse, Ms. Ninneman stated parking for Board and Committee members would be available in the secured lot across from the Tenth Street entrance.

In response to a follow-up question from Ms. Bedford regarding security screening at the County Courthouse, Ms. Ninneman confirmed Pension Board members could be issued temporary access cards that would allow them to bypass security screening lines at the entrance.

In response to a question from the Chairman, Mr. Gedemer stated the December 2016 meeting minutes accurately reflect his feelings regarding the request to move the meeting location. Mr. Gedemer stated his reservations to move remain unchanged. However, Mr. Gedemer stated he understood the County's desire to have the Pension Board move its meetings.

Ms. Daun noted for purposes of peer group context, the City of Milwaukee Pension Fund holds its trustee and committee meetings in the Heartland Funds building across the street from City Hall. Ms. Daun noted the primary difference between ERS and the City's Pension Fund meeting location is the immediate proximity of the Heartland Funds building to City Hall. Ms. Daun stated she understood the request to move the meeting location to the County Courthouse was presented in lock step with the livestreaming issue. However, Ms. Daun advised the Pension Board that the meeting location and livestreaming should be taken into consideration as

two separate issues. Ms. Daun stated that transparency does have value, but acknowledged there would be significant challenges involved with livestreaming Pension Board meetings. A great deal of very complex investment information is discussed at Pension Board and Committee meetings. There are genuine concerns that, absent a member of the public's willingness to watch the entire meeting and understand the broad scope of trustee fiduciary obligations, portions of livestreamed meetings could be taken out of context. Ms. Daun concluded her remarks by asking the Pension Board members to reconsider moving the location of its meetings to the County Courthouse and livestreaming of its meetings as two separate issues.

The Chairman noted his views on the topic echo those of Mr. Gedemer documented in the Board's December 2016 minutes. Mr. Gedemer previously expressed concern that if livestreamed, information from Pension Board meetings could be taken out of context. The Chairman reiterated that he believes the detailed format of the Pension Board minutes sufficiently document the thought proceedings of the Pension Board before it takes any action.

Ms. Ninneman stated it would be more convenient if Pension Board meetings were held at the County Courthouse because she would have immediate access to RPS staff and could provide additional reports as needed during Pension Board meetings. Ms. Ninneman also noted it would be more convenient for the County Executive and County Board members to attend Pension Board meetings if the meetings were held at the Courthouse.

Ms. Van Kampen also observed that she made a number of comments on the topic last month that were documented in the Board's December 2016 minutes. Ms. Van Kampen stated her opinion on the matter remains unchanged and she has no interest in moving the meetings to the County Courthouse. Ms. Van Kampen reiterated that the Board's current meeting location is convenient and pleasant. Ms. Van Kampen also reiterated that she believes livestreaming will not enhance the quality of the Pension Board meetings and closed session discussions cannot be livestreamed. Ms. Van Kampen added that she believes the Pension Board will find it easier to attract future Board members if the meeting location remains at the Marcus Center. Ms. Van Kampen concluded her remarks by stating she hopes the Pension Board will not have to continually revisit the County Board's request to move its meeting location at subsequent Board meetings. Ms. Van Kampen suggested it would have a negative impact if the Pension Board must constantly revisit the County Board's request because it did not receive the desired outcome.

The Chairman called for additional comments.

Ms. Daun concluded the discussion by stating that the meeting minutes can be written in a wide variety of formats. However, Ms. Daun noted that regardless of the level of detail provided in the minutes, the open session recordings of the Pension Board meetings are also subject to the open records law.

Ms. Westphal continued her report of the January 4, 2017 Audit Committee meeting. Mr. Carroll requested that the Audit Committee postpone its discussions on open meeting issues related to investments and the fiscal analysis requirements to the February cycle.

The Audit Committee then discussed early retirement age. In 2010, an Ordinance amendment was adopted that changed the normal retirement age for newly hired members from 60 to 64. However, when the 2010 Ordinance amendment was adopted, the criterion for early retirement was not changed. Mr. Huff presented a draft proposed Ordinance amendment to the Committee regarding early retirement age. Ms. Westphal then asked Mr. Huff to summarize the proposed Ordinance amendment to the Pension Board.

Mr. Huff explained the proposed Ordinance amendment was prepared at the request of the Audit Committee. The Pension Board, or someone acting on behalf of the Pension Board, could send the proposed Ordinance amendment to the County Board for review. The proposed Ordinance amendment would change the early retirement age to be five years from the normal retirement age.

In response to a question from Ms. Westphal, Mr. Carroll confirmed the proposed Ordinance amendment did not appear to be included in the Pension Board meeting materials. Mr. Carroll then suggested the topic be deferred to the February Pension Board meeting.

The Audit Committee next discussed the election of a new Audit Committee Chair. Ms. Westphal reported that February will be her last month as a member of the Pension Board and as Chair of the Audit Committee. Ms. Westphal asked the Pension Board to consider who they would like to nominate as new Audit Committee Chair at its February or March meeting. Ms. Westphal then asked the Chairman to discuss facilitating a new Pension Board Chair for March.

The Chairman suggested it would be prudent for the whole Pension Board to collectively determine who it would like to nominate for Pension Board

Chair and vote on the matter at its February or March meeting. The Chairman noted he would abstain from providing input.

The Audit Committee concluded its meeting with a discussion of administrative corrections. Ms. Ninneman reported that some calculation errors were discovered during completion of the VCP correction process that resulted in overpayments. There was also one error reported due to a member entering the wrong birthdate on his retirement application.

In response to a question from Ms. Westphal, Ms. Ninneman confirmed that she is compiling a report on the additional overpayment errors discovered during the VCP correction process and will present a detailed report at a future meeting.

7. Disability Retirement Application

(a) Anthony Moffett

Mr. Moffett was not present at the meeting.

The Pension Board later addressed the matter in closed session.

8. Appeals

(a) Steven May

The Chairman welcomed Mr. May to the meeting. In response to a question from the Chairman, Mr. May stated he would address the Pension Board in open session.

Mr. May thanked the Pension Board for hearing his appeal and summarized the circumstances regarding his appeal. Mr. May first stated that "I applied for disability in January 2015." Mr. May claimed that upon his application, RPS staff advised him the process would take approximately six to eight weeks to complete. Mr. May explained that he was no longer working in January 2015 and had not received a paycheck since July 2014, "when all my benefits ran out." Mr. May indicated he later inquired about a delay in his appeal and RPS staff explained the delay was due to ERS changing its medical review provider. Mr. May noted it was understandable that ERS wished to change its medical review provider. However, Mr. May asserted the entire process took approximately two years to complete. Mr. May indicated he felt penalized during the time he waited for ERS to change its medical review provider because he experienced serious financial hardships as a result of the delay. Mr. May explained he was able to receive financial

assistance from his brother and sister-in-law and was able to continue paying his bills timely. Mr. May stated he would like to reimburse his family for the borrowed funds, but reported his monthly insurance rates have increased substantially and now exceed his net monthly pension benefit. Mr. May also reported that he owes thousands of dollars in past medical bills and the costs to cover his mail order medications are approximately \$300 quarterly. Mr. May alleged that RPS staff stated his pension payments would be retroactive to the date he applied for his disability and, therefore, argued his benefits should be retroactive to his application date. Mr. May then respectfully requested that his disability pension payments be made retroactive to his application date of January 2015.

In response to a question from the Chairman, Mr. May stated that the RPS staff member whom he met with in January 2015 was the same individual that stated his pension benefits would be retroactive to the date he applied for his disability.

Mr. May concluded his remarks by stating he is in constant pain and will undoubtedly require future surgeries for his hips and spine.

In response to a question from the Chairman, Mr. May stated he received his first disability pension payment on September 30, 2016, which included six months of retroactive disability pension payments.

Mr. May further stated that RPS explained his disability pension payments were not made retroactive to 2015 because he had received certain payments for illness and vacation time, which are considered earned income. However, Mr. May alleged his attorney has advised him that "earned income" is income an individual receives from working 8 hours per day/40 hours per week and, any payments received due to illness, vacation or holiday time are "actually a benefit that you earn through your contract."

In response to a question from Ms. Funck regarding Mr. May's earlier statement that he ran out of benefits in July 2014, Mr. May stated his doctors advised him to stop working and he "ended working until the end of March before the pain got so bad that I couldn't work anymore." Mr. May further stated that his "sick time, holiday time, vacation time and comp time from 2014 ran out after I got a \$78 dollar check in August. But theoretically, I ran out at the end of July 2014." Mr. May then alleged he was "without a paycheck from the County until I received my first check at the end of September 2016."

Ms. Funck then asked Mr. May why he received additional payments in 2016 totaling \$6,332 for sick pay, holiday pay and vacation pay if he exhausted his benefits in 2014.

In response to Ms. Funck, Mr. May stated "apparently, each year they paid me for the accrued...sick time." Mr. May further stated he understood that "if I do get all my back pay back, they would probably have to go back and deduct what they paid me in vacation time. I understand that."

In response to a question from Ms. Van Kampen regarding what occurred between March 2014 and February of 2015, when Mr. May applied for a disability, Mr. May first stated "I applied in January." Mr. May alleged he applied in January because his spine doctor signed his report in January 2015. Mr. May also explained that he was recovering from multiple surgeries and was off of work during that time.

The Chairman thanked Mr. May for appearing before the Pension Board. The Chairman explained to Mr. May that the Board may be in closed session for some time. The Chairman advised Mr. May he would be notified of the Board's determination in writing in approximately 7 to 10 days if he did not wish to wait for the Board to return from closed session.

Mr. May thanked the Pension Board for its time and left the meeting.

(b) Linda Skira

In open session, Mr. Carroll explained that RPS staff notified Ms. Skira on January 24, 2017 that her appeal was postponed to a future Pension Board meeting.

Ms. Funck then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to agenda items 7 and 8 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to agenda items 7 through 10 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board agreed by roll call vote 7-0 to enter into closed session to discuss agenda items 7 through 10. Motion by Ms. Funck, seconded by Ms. Bedford.

RPS staff recused themselves from and left the room during the closed session discussion of agenda item 8.

9. Pending Litigation

- (a) Debra Tietjen v. ERS, et al.

The Pension Board took no action on this item.

- (b) Trapp, et al vs. Milwaukee County, et al.

The Pension Board took no action on this item.

- (c) Walker, et al. v. Milwaukee County, et al.

The Pension Board took no action on this item.

- (d) Baldwin v. ERS

The Pension Board took no action on this item.

- (e) Griffin v. County of Milwaukee, et al.

The Pension Board took no action on this item.

- (f) Stiff v. ERS, et al.

The Pension Board took no action on this item.

- (g) James Tietjen v. ERS, et al.

The Pension Board took no action on this item.

- (h) Wilson v. Pension Board of the Employees' Retirement System

The Pension Board took no action on this item.

- (i) Milwaukee District Council 48 v. Milwaukee County

The Pension Board took no action on this item.

10. Actuarial Valuation Error

The Pension Board took no action on this item.

After returning to open session, the Pension Board made a motion relative to agenda item 7 as follows:

(a) Anthony Moffett Disability Retirement Application

The Pension Board voted unanimously to accept the Medical Board's determination to approve the ordinary disability pension application and to accept the Medical Board's determination to deny the accidental disability pension application. Motion by Ms. Bedford, seconded by Ms. Funck.

In open session, the Pension Board next made a motion relative to agenda item 8 as follows:

(b) Steven May Appeal

The Pension Board denies the appeal by Steven May consistent with the discretion assigned to it by Ordinance section 201.24(8.17) to interpret the Ordinances and Rules of the Employees' Retirement System of the County of Milwaukee ("ERS"), based on the following rationale:

Factual Background.

1. Steven May was enrolled in ERS on November 6, 2006.
2. Mr. May was employed by the County at the General Mitchell International Airport when he suffered a series of injuries in January 2014. The accidents occurred in the course of his employment.
3. Mr. May applied for an accidental disability retirement ("ADR") on February 3, 2015.
4. Mr. May received \$6,332.04 in gross compensation for sick pay, holiday pay, vacation pay and payment for personal time from January 1, 2016 through March 12, 2016.
5. On March 24, 2016, Mr. May received his last paycheck from the County, compensating him for 3.70 hours of sick pay, for the pay period dated February 28, 2016 through March 12, 2016.

- a. Retirement Plan Services ("RPS") advised that Mr. May was compensated for 3.70 hours of sick pay on February 29, 2016 and that this was the last day Mr. May received compensation from the County.
6. At its July 27, 2016 meeting, the Pension Board granted Mr. May's ADR based on the Medical Board's determination that Mr. May was disabled.
7. On August 18, 2016, Mr. May finalized his retirement paperwork with a retirement effective date of March 1, 2016.
8. On September 30, 2016, Mr. May received a payment of \$14,046.90, which included disability pension payments retroactive to March 2016.
9. On October 6, 2016, Mr. May appealed RPS's determination of his disability pension commencement date, arguing that his commencement date should be retroactive to the date he applied for ADR.
10. On November 14, 2016, RPS postponed Mr. May's appeal, and Mr. May's appeal was rescheduled for the January 25, 2017 Pension Board meeting.
11. The Pension Board reviewed Mr. May's appeal at its January 25, 2017 meeting.
12. Mr. May appeared at the meeting. Mr. May stated that he was initially advised that it would take approximately 6-8 weeks for his disability application to be processed. Mr. May explained that he understood that prior to making a decision on his ADR application, the Pension Board transitioned to a new medical review. He argued that due to the transition, his disability determination was unnecessarily delayed. Mr. May also argued that sick, holiday and vacation pay were not earned income and were instead a benefit. Following this reasoning, Mr. May explained that he has not received a paycheck from the County since September 2014 and the delay caused a financial hardship for him and his family. Mr. May requested his retirement effective date be the date he applied for a disability benefit.

Pension Board Conclusions.

1. Pursuant to Rule 1027(1), a member's disability retirement effective date is the later of: (1) the date of the member's disability application; or (2) the day after the last day the member is entitled to compensation for the member's employment with the County.
 - a. In practice, RPS has interpreted "compensation for employment" to mean an employee's right to receive any amounts for employment with the County.
 - b. A member is unable to receive pension payments from the County for the same time period the member was also receiving payments for his or her accrued time.
 - c. Because Mr. May received sick pay, holiday pay, vacation pay and payment for personal time as a result of his employment status with the County, under RPS's past practice, it appears he continued to receive compensation from the County until March 2016.
 - d. Because Mr. May continued to receive compensation from the County after his disability application was submitted, Rule 1027(1) requires his disability retirement effective date to be the day after he ceases to receive compensation, which according to RPS is March 1, 2016.
2. Pursuant to Rule 1019, the Pension Board must rely on compensation and service information provided by the County and shall not independently verify this information.
 - a. Mr. May submitted his ADR application in February 2015. However, based on the information received from the County, it appears that the County considered Mr. May an employee until March 2016 and Mr. May received compensation as a result of that status.
 - b. Because County records provide that Mr. May was employed and received compensation until February 29, 2016, RPS must use that date in determining Mr. May's retirement effective date. As a result, Mr. May's retirement effective date should be the day after the date Mr. May last received compensation, which is March 1, 2016.

3. The Pension Board finds that based on the information it received from RPS, it has authority to make this determination because no fiscal analysis, as that term is used in Ordinance section 201.24(8.17)(c), is required.
4. Based on the foregoing, the Pension Board further finds Mr. May's retirement effective date of March 1, 2016 is the correct date under the Ordinances and Rules. Therefore, Mr. May is not entitled to an earlier retirement effective date.

**The vote to deny the appeal by Steven May was unanimous.
Motion by Mr. Zepecki, seconded by Ms. Bedford.**

In open session, the Pension Board made a motion as follows:

- (c) **The Pension Board voted unanimously to authorize ERS to conduct an RFP for actuarial service providers. Motion by Ms. Van Kampen, seconded by Ms. Westphal.**

11. Reports of Director—Retirement Plan Services & Fiscal Officer

(a) Retirements Granted Report—December 2016

In open session, Ms. Ninneman presented the Retirements Granted Report for December 2016. Twenty-one retirements from ERS were approved with a total monthly payment amount of \$26,204.49. Of those 21 ERS retirements, 8 were normal retirements, 9 were deferred retirements, 2 were accidental disability retirements, 1 was an ordinary disability retirement and 1 was an early retirement. Five members retired under the Rule of 75. Ten retirees chose the maximum option. Six retirees elected backDROPs in amounts totaling \$366,567.87.

In response to a question from the Chairman, Ms. Ninneman confirmed that a high amount of retirements are anticipated for January and February 2017.

(b) Retirement Plan Services Update

Ms. Ninneman reported that RPS completed the VCP corrections on December 30, 2016. Ms. Ninneman also reported that she and Ms. Daun appeared before the Personnel Committee on January 20, 2017, and will appear before the Finance Committee on January 26, 2017, to discuss the VCP. A report detailing all of the VCP errors and each correction methodology was submitted to the County Board and has been entered in

Legistar. Ms. Ninneman indicated she would send a copy of the VCP report to the Pension Board members.

Ms. Ninneman noted the Pension Board authorized the liquidation of \$11 million in assets at its September 2016 meeting for VCP funding and, an additional \$3 million for VCP funding at its October 2016 meeting. The total amount approved by the Board in 2016 for VCP funding was \$14 million. However, Ms. Ninneman explained that once RPS completed the VCP correction process in December and totaled all payments, the total amount for VCP funding came to \$14,561,438. Ms. Ninneman then requested Board approval of an additional \$561, 438 for VCP funding.

The Pension Board unanimously approved authorizing the expenditure of an additional \$561,438 in assets for VCP funding. Any amounts withdrawn from investments should be designated by Marquette. Motion by Mr. Gedemer, seconded by Ms. Van Kampen.

Ms. Ninneman then reported that a supplemental VCP was filed in 2014. Ms. Ninneman stated she is compiling a report on the supplemental VCP and will provide a copy of the report to the Audit Committee and Pension Board in February 2017. Ms. Ninneman stated she will appear at the County Board Committee meetings in March 2017 to report on the supplemental VCP.

Ms. Ninneman next reported that RPS staff worked overtime this week to reconcile and mail out the 1099 forms. Ms. Lausier noted RPS staff processed 8,925 forms for ERS and 269 forms for OBRA.

The Chairman expressed his gratitude to RPS staff for its hard work in getting the 1099 forms mailed timely.

Ms. Ninneman continued by reporting that ERS has started its annual audit. Baker Tilly completed its preliminary work and provided RPS with lists of information it is seeking to complete the audit. Baker Tilly will return in April to conduct its field work. Ms. Ninneman reported the actuarial valuation data review is also underway. In conjunction with the VCP and the actuarial data review, RPS is reviewing its auditing processes and procedures to ensure the system is operating correctly. As a result, with certain safeguards now in place, Ms. Ninneman stated the chances of future errors occurring have been greatly minimized.

Ms. Ninneman concluded her report by reiterating that the annual meeting survey has been mailed to retirees in the *Communicator* and sent electronically via Survey Monkey. The reposting of the employee member

seat on the Pension Board was completed on January 24 and some individuals have since inquired about the time commitment. RPS is also investigating what the most appropriate method would be to notify ERS members about the upcoming changes to the Fund's discount rate and the resulting effect those changes will have. Ms. Ninneman reported there is a great deal of confusion among employees about the discount rate. The employee communication will explain actuarial assumptions, the various factors involved in setting the discount rate and its effect on averaging funding levels. It was also suggested that RPS offer some high-level training on how benefit calculations are performed.

In response to a question from Ms. Westphal regarding the member self-service retirement benefit calculator, Ms. Ninneman stated the calculator has not been updated to reflect the new interest rate. A request has been submitted to Vitech, but it will likely take approximately two to three months for Vitech to reprogram the change.

(c) Fiscal Officer Report

Ms. Lausier discussed the December 2016 portfolio activity report. The Fund's net realized gain for December was approximately \$5 million and the net unrealized gain was approximately \$13.5 million. Ms. Lausier noted that December was one of the more positive months for the Fund in some time. The Fund's ending balance for December increased to \$1.667 billion.

Ms. Lausier then discussed the November and December 2016 cash position report. Ms. Lausier noted the VCP lump-sum payments were broken out on the December report. Total VCP lump-sum payments for 2016 were \$14,150,884. Ms. Lausier noted the \$14,150,884 did not include the service credit refunds or the \$133,000 rollover to Great West, which brings the final VCP amount to \$14,561,438. Ms. Lausier reported there were \$233,179 in VCP payments returned to ERS. RPS researched the returned payments and it was discovered all returned payments were issued to deceased members or deceased beneficiaries. RPS will further research the returned payments to see if an estate can be identified. Returned payments that cannot be identified will eventually be escheated to the state. Capital calls were received in December from Mesirow for \$1,350,000 and Siguler Guff Fund II for \$300,000. Capital calls scheduled for January 2017 include \$300,000 for Siguler Guff Fund II, \$400,000 for Siguler Guff Fund III and \$405,000 for Adams Street Fund III.

Ms. Lausier next discussed the funds approved by the Board report. Ms. Lausier stated a high number of retirements are anticipated during the

first quarter and requested approval of \$54 million for 2017 first quarter funding.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of \$54 million for 2017 first quarter funding. The amounts should be withdrawn from investments designated by Marquette. Motion by Ms. Westphal, seconded by Mr. Gedemer.

Ms. Lausier reported that December 2016 disbursements were paid from the general account. The December disbursements were primarily funded by the County's final 2016 contribution payment of \$15 million which was received in December. Marquette will be rebalancing in January 2017. Amounts of \$7.5 million each will be liquidated from Silvercrest and Boston Partners. The full \$15 million will then be placed in the Northern Trust collective fund.

Ms. Lausier concluded her report by noting she distributed for review the 2016 budget vs. actual report, the 2016 fourth quarter check register and the 2016 top ten vendor list.

12. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists. The Chairman and Ms. Ninneman reminded the Board members to consider who they would like to nominate for Pension Board Chair and Audit Committee Chair at the next Pension Board meeting.

A member recommended exploring a potential Rule change regarding payments made between a member's final day of work and the final date of disbursement of compensation.

13. Adjournment

The meeting adjourned at 1:00 p.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board